

AR38

# Canadian Reserve Oil and Gas Ltd.



annual  
report



75



## CORPORATE INFORMATION

### DIRECTORS

John R. McMillan, Los Angeles  
Chairman of the Board and Chief Executive Officer,  
Reserve Oil and Gas Company

Howard C. Pyle, Los Angeles  
Petroleum Investments

Newton T. Bass, Apple Valley  
Chairman of the Board, Emeritus,  
Reserve Oil and Gas Company

Paul D. Meadows, Denver  
President and Chief Operating Officer,  
Reserve Oil and Gas Company

Maclean E. Jones, Q.C., Calgary  
Partner  
Jones, Black & Company

B. J. Westlund, Lake Oswego, Oregon  
Retired Businessman

Cortlandt S. Dietler, Denver  
President, Western Crude Oil, Inc.

R. Bruce Bailey  
President, Canadian Reserve Oil and Gas Ltd.

### OFFICERS

John R. McMillan  
Chairman of the Board and Chief Executive Officer

Paul D. Meadows  
Chairman of the Executive Committee

R. Bruce Bailey  
President

J. Edouard Michaud  
Vice-President

Joe R. Dundas  
Vice-President

David W. Talbot  
Vice-President and Secretary Treasurer

Grant D. Richards  
Assistant Secretary and Assistant Treasurer

Tom L. Deen  
Assistant Secretary

### HEAD OFFICE

639 - 5th Avenue S.W.,  
Calgary, Alberta

### AUDITORS

Arthur Young, Clarkson, Gordon & Co.  
Calgary, Alberta

### REGISTRAR

GUARANTY TRUST COMPANY OF CANADA  
Calgary, Alberta

### TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA  
Calgary, Alberta; Vancouver, British Columbia;  
Toronto, Ontario; Montreal, Quebec

### STOCK EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE  
MONTREAL STOCK EXCHANGE

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### ANNUAL MEETING

The Annual General Meeting of Shareholders of  
the Company will be held at the Calgary Convention  
Centre, Calgary, Alberta, on April 19th, 1976 at  
10:00 a.m.

## HIGHLIGHTS 1975

|                                     | 1975         | 1974         | %<br>Change |
|-------------------------------------|--------------|--------------|-------------|
| Gross revenue                       | \$13,556,358 | \$10,760,945 | + 26        |
| Cash flow                           | \$ 7,146,727 | \$ 6,567,569 | + 9         |
| Per share                           | \$ .74       | \$ .68       |             |
| Net income                          | \$ 4,319,334 | \$ 1,946,343 | +122        |
| Per share                           | \$ .45       | \$ .20       |             |
| Working capital at<br>year end      | \$ 3,280,956 | \$ 2,982,677 | + 10        |
| Property and<br>equipment additions | \$ 5,275,725 | \$ 5,097,399 | + 3         |
| Oil and gas liquid sales —          |              |              |             |
| Barrels                             | 1,772,468    | 2,069,679    | — 14        |
| Barrels per day                     | 4,856        | 5,670        |             |
| Gas sales —                         |              |              |             |
| Mcfs                                | 5,589,294    | 6,070,998    | — 8         |
| Mcfs per day                        | 15,313       | 16,633       |             |
| Wells drilled — net                 |              |              |             |
| Oil                                 | 12           | 6            |             |
| Gas                                 | 2            | 4            |             |
| Dry                                 | 10           | 12           |             |
| Total                               | <u>24</u>    | <u>22</u>    |             |
| Acreage — net<br>working interest   | 3,626,714    | 9,657,255    | — 62        |
| Outstanding shares                  | 9,635,037    | 9,635,037    | —           |





## to the SHAREHOLDERS

Canadian Reserve maintained its established growth trend in 1975 and I am pleased to report record financial gains in all categories. Gross revenues increased by 26% to \$13,556,358 and cash flow increased by 9% to \$7,146,727 or \$.74 per share. Cash flow before income taxes was \$8,897,000 or 35% greater than in 1974. Net income increased 122% to \$4,319,334 or \$.45 per share as compared with \$.20 for the previous year.

The improved financial figures are a direct result of higher product prices for natural gas, crude oil, natural gas liquids, and sulphur. In comparing price changes from 1974 to 1975, the average price for a barrel of crude oil sold by the Company increased from \$3.44 to \$4.69 per barrel, natural gas from 20 cents to 52 cents per Mcf, and sulphur from \$17.24 to \$20.40 per ton.

Sales of net crude oil and natural gas liquids declined in 1975 to 4,856 barrels per day from the previous year of 5,670 barrels per day and natural gas sales declined from 16.6 to 15.3 million cubic feet per day. The reduction in net sales is a direct result of increased royalties in Alberta and British Columbia, seasonal markets for heavy crude oil from the Lloydminster

area, and lack of new production due to reduced exploratory and development drilling.

Natural gas sales and revenues are expected to increase sharply in 1976 with first production from new wells at Kotcho Lake, British Columbia, and the benefit of November, 1975 price increases, which will be in effect for the full year. Crude oil and natural gas liquid revenues are expected to increase in 1976, due to anticipated price increases; however, sales volumes are expected to remain relatively constant.

Sulphur sales for the year totalled 35,850 long tons at an average price of \$20.40 per ton as compared to sales of 30,460 long tons at an average price of \$17.24 per ton in 1974. Sales volumes should be maintained in 1976 with some possible price erosion.

Oppressive royalty and tax regulations imposed by the Provincial and Federal Governments during the period November, 1973 to mid-1975 necessitated a continuing reduction in capital outlay for exploration and development drilling. Accordingly, the Company reduced drilling activity from 67 wells in 1974 to 56 wells in 1975, or a 16% decline.

In Alberta, outside the Heavy Crude area, the Company drilled 18 wells, resulting in 5 oil and 5 natural gas wells. In addition, the Company participated in 35 wells in the Heavy Crude area of Alberta-Saskatchewan, which resulted in 18 oil wells and 1 natural gas well. The results of this drilling activity are more fully described in the Exploration and Development sections of this report.

In our 1974 report to shareholders, we stated that the then recent changes in governmental regulations "are indications that an economic climate may soon be re-established which will be conducive to the revitalization of the petroleum industry in Canada".

Subsequent changes have been announced by the Provinces, including royalty rate reductions and exploration incentives in Alberta, competitive gas pricing and royalty reductions in British Columbia, and reduced royalty rates and incentive plans in Saskatchewan. This reversal in government policy of increasing royalty and taxation rates exhibited during recent years is a step in the right direction.

Apparently, our Governments realize the private sector must be permitted to generate and encouraged to invest the large sums of money required to regain and maintain energy self-sufficiency in Canada.

Canadian Reserve and the industry have responded to the improved political climate by increasing exploratory and development efforts in late 1975 and announcing accelerated programs for 1976.

We, in Canadian Reserve, are encouraged by the various Government regulation changes enacted in 1975. We anticipate additional favorable changes, which will provide increased funds for reinvestment in exploration and development projects. Accordingly,

we are optimistic about the future opportunities for the Company.

The employees of Canadian Reserve have again made a significant contribution to a very successful year. It is a pleasure for me to express the sincere appreciation of Management and the Board of Directors to the employees for their outstanding performance and dedication.

For the Board of Directors



R. B. BAILEY  
President

## EXPLORATION, DEVELOPMENT and OPERATIONS

Based on its assessment of government policies in effect in early 1975, Canadian Reserve conducted limited exploratory and development programs in Alberta; reduced the emphasis on heavy crude projects in Saskatchewan; and cancelled all exploration drilling projects, development drilling, and pipeline construction in northeastern British Columbia.

By mid-year 1975, the British Columbia Government had established a new net wellhead price for natural gas to the producer of 55 cents per MCF and the Alberta Government had lessened the producer's royalty burden and established an incentive program for exploratory operations. As a result, during the fourth quarter of 1975, the Company was able to commence an aggressive exploration and development program which will continue into the operation period of 1976.

The Company participated in the drilling of 56 wells in Western Canada during 1975. This is a 16% decrease from the 67 wells drilled in 1974, which was, in turn, a 45% decrease from the 122 wells drilled in 1973. The two years of reduced drilling activity is the direct result of Provincial royalty assessments and taxation policies of the Federal Government.

A summary of the Company's significant activities in 1975 follows:



Canadian Reserve well drilling in the Horburg area, North West of Calgary, Alberta.

## EXPLORATION and DEVELOPMENT

### BRITISH COLUMBIA

Minor exploratory and development projects involving commitments were conducted in northeastern British Columbia during 1975. A summary of the limited activity follows.

#### Kotcho Area

Two shallow wells were drilled in the Kotcho area in 1975, resulting in one natural gas well and one abandonment. The producer, d-A71-G was completed in the Bluesky zone with an A.O.F. of 2.8 million cubic feet per day. Reflection seismic was also conducted in selected areas resulting in the delineation of additional drillable features, which will be tested during the operational season of 1976.

Canadian Reserve holds land interests which vary from 18.75% to 100% in 59,777 acres (28,005 net) in the Kotcho area.

#### Tenaka Area

Canadian Reserve as operator, conducted a limited seismic program and drilled an 8,500 foot dry hole on the Tenaka prospect in 1975. It will be necessary to establish additional natural gas reserves in the area to justify a pipeline and gathering system, and to this end,



Laying of natural gas pipeline, Kotcho area, North East British Columbia.

the Company has completed plans for additional seismic and drilling during the winter season of 1976.

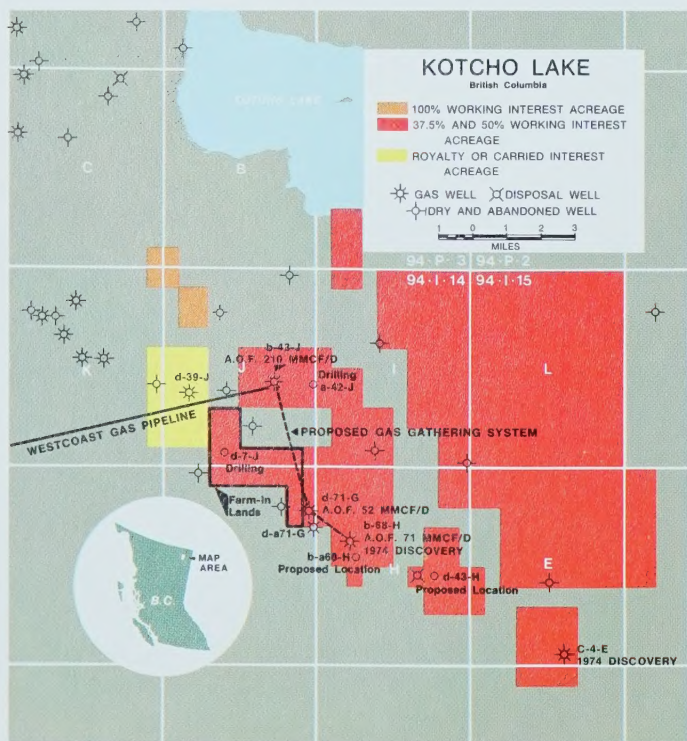
Canadian Reserve owns an interest in 80,795 acres (18,326 net) in the Tenaka area.

#### Helmet Area

The most active exploration region in British Columbia during 1975 was the Helmet area where the industry drilled 5 Middle Devonian natural gas wells. Canadian Reserve, with a partner, acquired 2 sections of lease near a proven natural gas well and has plans to conduct a detailed seismic program and drill a well in 1976. A sixteen inch pipeline now under construction will be ready to deliver natural gas from the Helmet area early in 1976.

#### Suhm Area

On the basis of seismic and subsurface work in this area to the north of Helmet, Canadian Reserve developed the Suhm prospect and acquired a 37.5% interest in a 9,100 acre Drilling Reservation in October of 1975. Detailed seismic programming is planned for the winter season.



## ALBERTA

During 1975, Canadian Reserve participated in 13 (4.7 net) exploratory wells, resulting in 1 natural gas well at Goodridge Lake and 4 oil wells at Lobstick and Grand Forks. The Company also participated in 5 (1.3 net) development wells, resulting in 4 natural gas wells and 1 oil well in the province. In addition to the above, there were 8 exploratory and 7 development wells drilled in Alberta which are included in the Heavy Crude section.

### Lobstick Area

Canadian Reserve, as operator and a 50% partner, drilled a 5,400 foot Cardium follow-up test on this prospect. The well is classed as a suspended oil well and requires further evaluation. This well earned Canadian Reserve a net 25% of a 640 acre block and the right to earn additional lands in the area. After earning, Canadian Reserve will own a net 1,440 acres on the prospect. A 2 or 3 well development program is planned for 1976.

### Grand Forks Area

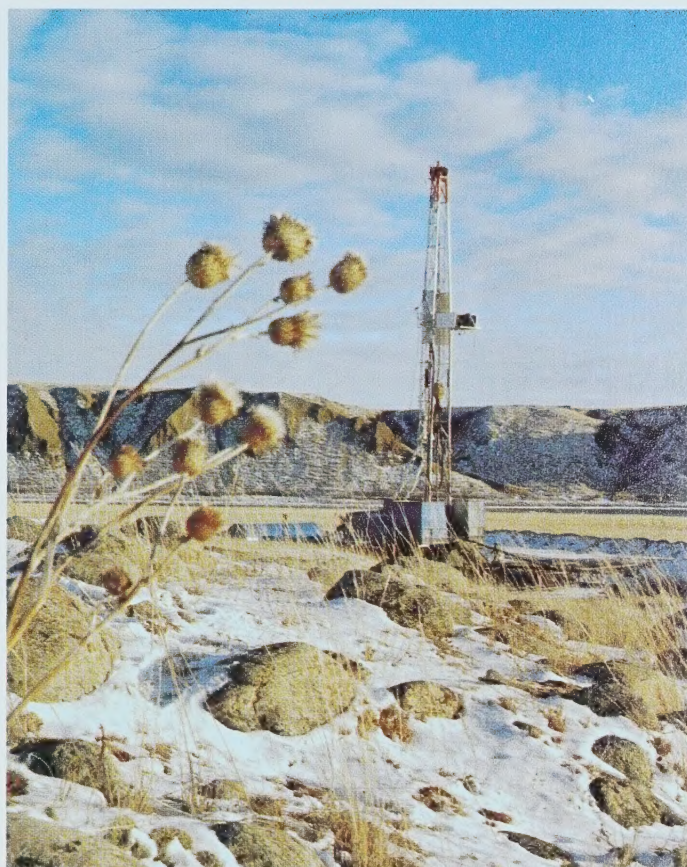
The Company, as 50% partner and operator, drilled 5 wells on this prospect in 1975, resulting in 1 producing oil well, 2 suspended oil wells and 2 dry holes. These wells earned Canadian Reserve a net 920 acres and the right to earn an additional 480 acres. Canadian Reserve also participated for a 50% interest in the purchase of 1,920 acres in the area.

The 8-14 well on this prospect produces 50 barrels of oil per day of 24° API crude from a 15 foot porous Lower Mannville sand.

### Atlee-Buffalo Area

During 1975, Canadian Reserve, as a 50% partner, joined in the purchase of a 23 section block (14,720 acres) on this shallow Cretaceous natural gas prospect in southeastern Alberta. Industry has drilled 40 to 50 natural gas wells on offsetting lands in the area during the past year.

The area is similar to the Medicine Hat field where Milk River and Medicine Hat sands contain intermittent natural gas-bearing zones of low reserves and low deliverability. A multi-well development program is planned for 1976.



*Canadian Reserve step out well in the Grand Forks area, Southern Alberta.*

### Goodridge Lake Area

The Company, as 33.3% partner, participated in the drilling of a 3,200 foot Mississippian-Banff test on a jointly held 11,200 acre Natural Gas License on this prospect. The well is presently suspended as a potential Basal Quartz natural gas well.

Canadian Reserve and partners plan to drill a follow-up well on the license early in 1976.

### Horburg Area

Canadian Reserve joined in the purchase of a 10,240 acre Drilling Reservation on this prospect in 1975. The potential of the area is related to natural gas in the Mississippian-Elkton formation at a depth of 10,700 feet. The Company owns a 33.3% interest and plans to participate in a well to earn in the Drilling Reservation.

## Rainbow South Area

Canadian Reserve, as 25% partner and operator, purchased 2 Petroleum and Natural Gas Reservations consisting of 10,560 acres and 7,360 acres. The objective on these lands is natural gas in the Cretaceous-Bluesky formation and the Mississippian-Banff formation at a depth of 1,700 feet. Canadian Reserve and partners plan to drill a test well on each block early in 1976.

## Notikewin Area

The Company has committed to drill a 1,700 foot Bluesky sand and Banff sand test in early 1976 to earn a 50% interest in a 5,760 acre block and has the right to earn a similar interest in a second 5,760 acre block

in the area with a second well. Approximately 22,000 acres of Crown lands are available on the project and will be purchased jointly, if proven prospective by the drilling program.

## HEAVY CRUDE AREAS ALBERTA-SASKATCHEWAN

During 1975, Canadian Reserve participated in 15 (7.6 net) development wells resulting in 13 oil wells and 2 dry holes. The Company also participated in 12 exploratory wells resulting in 5 oil wells and 7 dry holes. In addition, 8 wells were drilled as farmouts by other companies on Canadian Reserve's behalf resulting in 7 dry holes and 1 natural gas well.

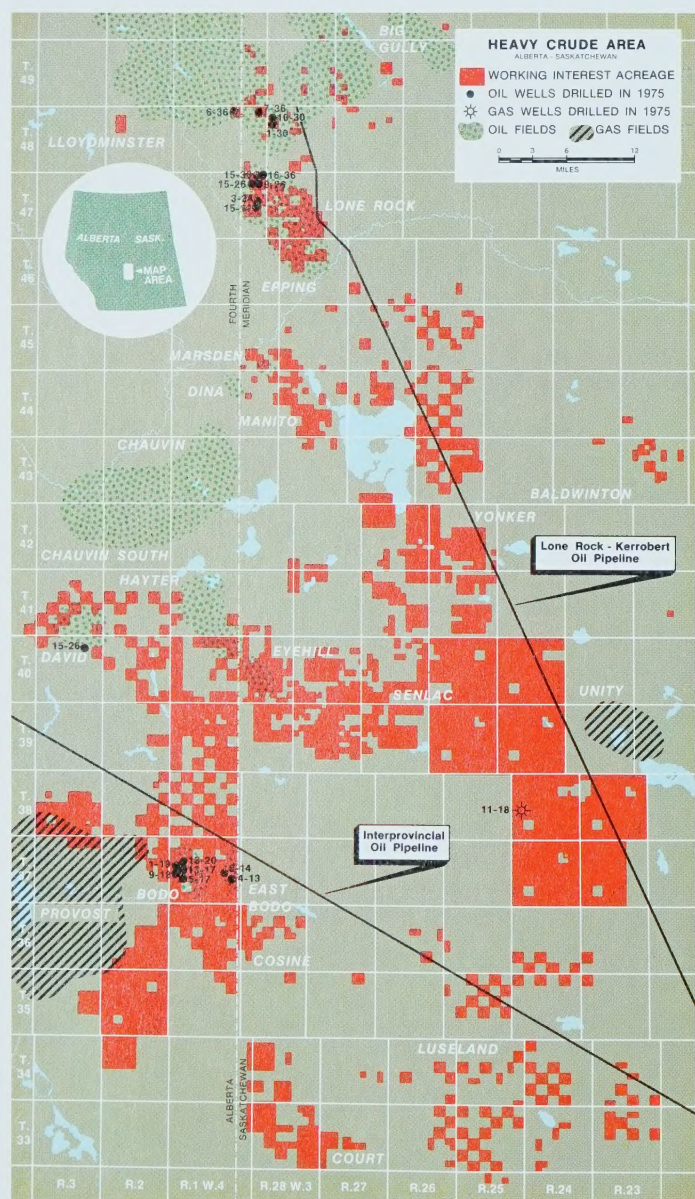
Canadian Reserve maintained a minimum drilling program in the heavy oil area of Saskatchewan during 1975 because of the continuing adverse economic effect of Federal and Provincial royalty and tax legislation. This drilling program was restricted to the Lone Rock-Epping producing area where exploratory risk is lower due to a higher density of subsurface control.

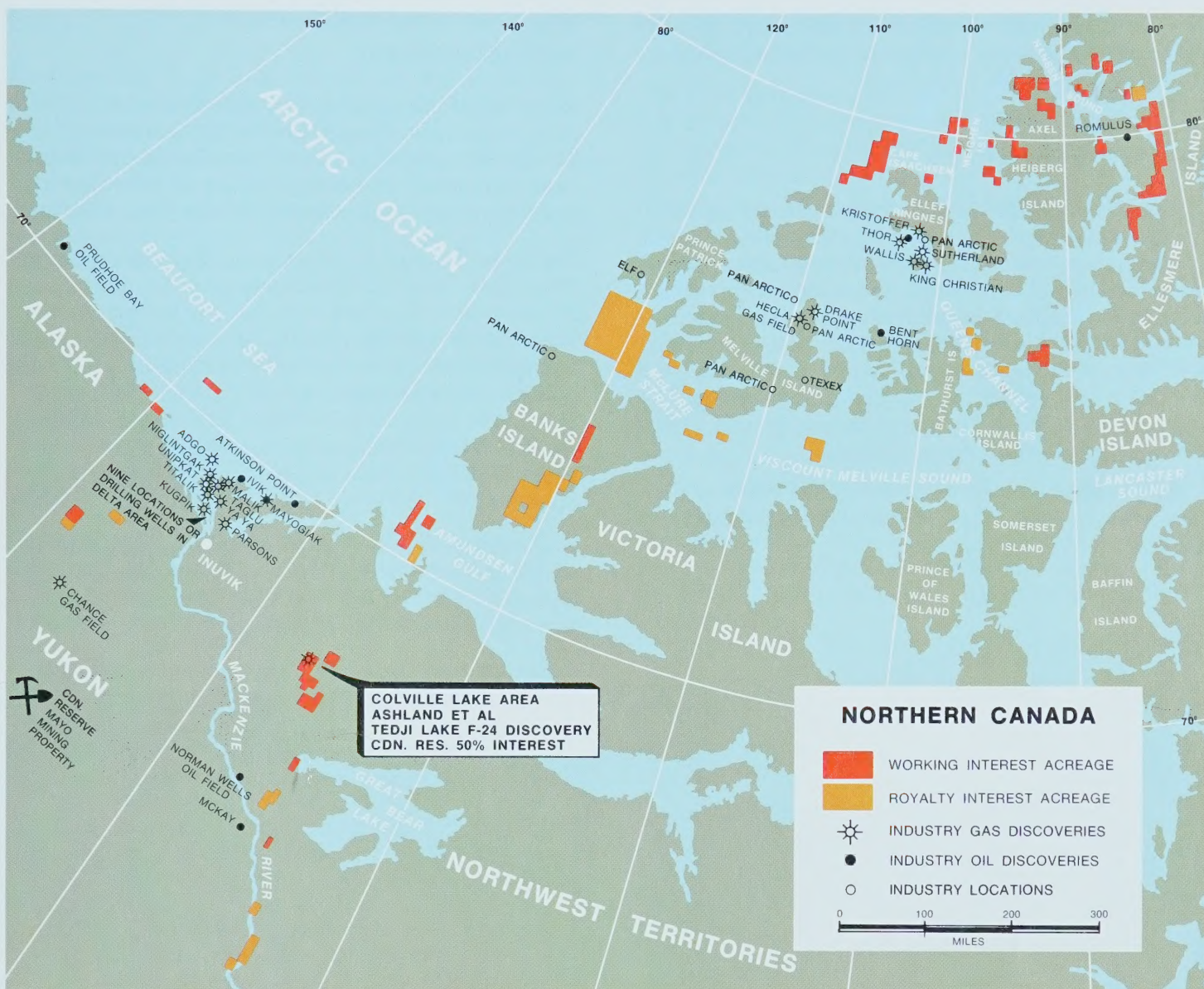
The Company is participating in two pilot thermal projects in the Bodo area of south-central Alberta. An experimental in-situ combustion project was initiated during the last quarter of 1975 incorporating a twenty acre inverted five spot pattern. It is anticipated that a minimum of two years will be required to meet the objective of this experimental flood. A second experimental project utilizing steam stimulation was commenced during the same period. If successful, these enhanced recovery schemes could add significantly to the Company's reserves in the Bodo field and other similar heavy crude areas and lead to extensive development programs.

The Company also owns substantial developed in-place heavy oil reserves in the Senlac and Eyehill areas of Saskatchewan. The enhanced recovery methods for these areas are more expensive and will require wellhead crude oil price increases in excess of prevailing government-controlled prices to economically justify development.

## YUKON AND NORTHWEST TERRITORIES

Industry activity again this past year was confined almost exclusively to the Mackenzie Delta region where 25 wells were drilled. Of this amount, 4 resulted in gas and/or oil discoveries bringing the totals to date to 20 producers (15 gas, 2 oil, and 3 oil and gas). At year end, 9 rigs were active in the Mackenzie Delta.





## Colville Lake Area

In 1975, an extensive seismic program comprised of approximately 200 miles of coverage was conducted in this area. The program was a follow-up to the Ashland et al Tedji Lake F-24 natural gas discovery of 1974 in which Canadian Reserve has a major interest. The new seismic information revealed additional anomalies that warrant testing. Such testing, however, will await enactment of the long expected new land regulations by the Federal Government.

In the Yukon and Northwest Territories, the Company holds working interests in 1,485,630 acres (991,426 net) and overriding royalty interests in 613,197 acres.

## ARCTIC ISLANDS

During 1975, 4 out of the 18 locations drilled by the industry resulted in producers. All of these new producers (3 gas and 1 oil) were either stepouts or extensions to existing production and all were operated by Panarctic Oils Ltd. The most significant discovery was made in October at the Bent Horn G-72 location on Cameron Island where high gravity crude oil was tested at a rate of 3,000 barrels of oil per day. This was the first instance of oil tested in commercial quantities from the Arctic Islands and focuses attention on the older rocks, especially the Devonian, that border the Sverdrup Basin. At year end, 7 rigs were operating in the Arctic Islands.

The Company holds oil and gas rights on 3,664,823 acres (1,956,374 net) and has overriding royalty interests in 4,865,132 acres in the Arctic Islands.

## EASTERN CANADA

Ten wells were drilled in the offshore play during 1975 with no new discoveries reported. Three of these wells, however, have been suspended above intended total depth and will be completed next drilling season. The exploration emphasis has shifted over the past two years from the Scotian Shelf and Grand Banks region to Offshore Labrador in response to two significant discoveries made there in 1974. Indications are that Offshore Labrador will continue to receive most of the attention directed at Eastern Canada.

Canadian Reserve owns 465,713 acres (148,969 net) of petroleum and natural gas rights off the East Coast of Canada.



*Typical terrain, Rambler Hill area Yukon Territories, where Canadian Reserve has staked mineral claims. Lead, zinc, silver veins have been discovered and drilling will commence in the summer of 1976.*

## HEAVY MINERALS EXPLORATION AND DEVELOPMENT

Heavy minerals exploration and development programs were continued during 1975 as a joint venture exploration program in the Rambler Hill area near Mayo, Yukon Territory, and as a joint venture development project in the Ironbridge area of Ontario.

The barite, lead, silver, zinc mining operation at the Homestake Mine, 45 miles northeast of Kamloops, British Columbia, where the Company has established 1,056,000 gross tons of proven and probable reserves, was suspended when the project became uneconomical because of the passage of British Columbia Bill No. 31. The royalty schedule and mineral taxes as specified by the British Columbia Government in Bill 31 are prohibitive and caused cancellation of the mining operations.

In the Yukon Territory, extensive trenching operations were conducted on the Lucknow claims, Rambler Hill and on the Paddy Carol claims near the highway from Keno City to Mayo, Yukon Territory.

Particularly encouraging results were encountered at Lucknow, where a 4 to 6 foot lead-zinc vein was discovered over a 1,500 foot length. Assays of selected samples are encouraging and an overburden drilling program will be conducted during the summer of 1976.

The Paddy Carol trenching also uncovered favourable zones and drilling is planned during the same period of operation as at Lucknow.

In the Ironbridge area of northern Ontario, Canadian Reserve assumed operations on August 1, 1975 from Silver Spring Mines Ltd. (N.P.L.) and continued development work in three separate claim areas. On assumption of operations, and by expending additional funds, Canadian Reserve earned a 100% working interest in four claim groups and a 250 ton per day mill, leaving a 25% net carried interest to Silver Springs. Canadian Reserve is to recover 200% of the total funds expended in development and production, prior to Silver Springs being given a right to assume a 25% working interest position.

Operations at Ironbridge during 1975 included upgrading of the mill on the Cannon property, underground development on the Pathfinder and Cannon claim groups, and surface and underground work on the Master Metals claims. Work to date has established 210,000 tons of copper ore, grading in excess of 2%. Operations were suspended on October 31, 1975 at a stage of "ready for production", pending a price increase for copper on the world market.

## LAND

On December 31, 1975 Canadian Reserve held working interests in 7.4 million acres (3.6 net) and overriding royalty interests in 6.2 million acres throughout Canada in the Western Provinces, Ontario, the Arctic Islands, the East Coast offshore and the Yukon and Northwest Territories. Productive land holdings in the Western Provinces increased by 5,200 acres to 328,200 acres notwithstanding reduced exploratory operations.

In June, 1975 the Federal Government summarily cancelled all pending applications for Permits including the 14.7 million acres off the Labrador Coast in which this Company held a 1/3 interest. Also on the East Coast, 3,602,693 acres in the Grand Banks area were surrendered after evaluation by a major company under farmout agreement with Canadian Reserve.

Declining interest in the eastern Arctic Islands, again due in part to the lack of a Federal Government land policy, plus future heavy work commitments has resulted in continued reduction of Company land

holdings in the Far North as evidenced by the adjoining Summary of Acreage Holdings.

A seismic/farmout agreement was concluded on some 475,000 acres in the Nansen Sound Block, and the 2.8 million acre McLure Strait Block was converted to an overriding royalty position.

New acquisitions in the Western Provinces were limited to selective prospect areas where the Company will proceed with drilling programs. The principal new holdings acquired during 1975 were in the Rainbow Lake, Horburg and Atlee-Buffalo areas of Alberta and in the Suhm and Helmet areas of British Columbia.

The Alberta Government has proposed new Land Tenure regulations to be effective April 1, 1976 which will require the drilling of leases or licenses to earn, within a reduced time frame. The resulting increased turnover of land holdings by the industry will open prospective lands to exploration and allow Canadian Reserve and other independent companies to participate in an increased number of higher quality prospects.

### SUMMARY OF CROWN AND FREEHOLD ACQUISITIONS IN 1975

|                            | <u>Gross Acres</u> | <u>Net Acres</u> | <u>Company Cost</u> |
|----------------------------|--------------------|------------------|---------------------|
| British Columbia . . . . . | 10,333             | 4,038            | 295,000             |
| Alberta . . . . .          | 52,237             | 21,681           | 495,000             |
| Other . . . . .            | 1,441              | 1,280            | 21,000              |
| TOTALS . . . . .           | <u>64,011</u>      | <u>26,999</u>    | <u>811,000</u>      |

### SUMMARY OF ACREAGE HOLDINGS

|   | <u>Working Interests</u> |                  | <u>Gross Overriding<br/>Royalty Interests</u> |
|---|--------------------------|------------------|---|
|   | <u>Gross</u>             | <u>Net</u>       | <u>Gross</u>                                  |
| <b>Oil and Gas Exploration Permits</b>  |                          |                  |   |
| Yukon . . . . .                         | 323,758                  | 161,768          | 98,552  |
| Northwest Territories . . . . .         | 1,161,872                | 829,658          | 514,645                                       |
| Arctic Islands . . . . .                | 3,664,823                | 1,956,374        | 4,865,132                                     |
| Canadian East Coast Offshore . . . . .  | 465,713                  | 148,969          | —   |
| <b>Petroleum and Natural Gas Rights</b> |                          |                  |   |
| British Columbia . . . . .              | 464,352                  | 71,617           | 51,524  |
| Alberta . . . . .                       | 719,091                  | 215,561          | 132,364                                       |
| Saskatchewan . . . . .                  | 647,184                  | 239,521          | 582,254                                       |
| Manitoba . . . . .                      | 7,472                    | 1,870            | 1,413   |
| Ontario . . . . .                       | 2,751                    | 1,376            | —   |
| TOTAL OIL AND GAS ACREAGE . . . . .     | <u>7,457,016</u>         | <u>3,626,714</u> | <u>6,245,884</u>                              |

NORTHWEST TERRITORIES



CANADIAN RESERVE ET AL  
BLUEBERRY OIL PIPELINE

INGA-BLUEBERRY

WESTCOAST TRANSMISSION OIL PIPELINE

HOMESTEAK  
MINING  
PROPERTY

BRITISH  
COLUMBIA

UNITED STATES OF AMERICA

## CANADIAN RESERVE OIL AND GAS LTD.

MAP OF WESTERN CANADA  
SHOWING MAJOR PROPERTIES AND INTERESTS



WORKING INTEREST LANDS



CARRIED OR ROYALTY INTEREST LANDS



OIL PRODUCING AREAS



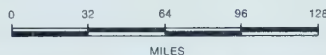
GAS PRODUCING AREAS



ACTIVE EXPLORATORY AREAS



PLANT SITES



## COMPANY PROFILE

Canadian Reserve is an exploration, development and production Company involved in the natural resource industry, concentrating its efforts in the search for and development of natural gas and crude oil reserves in Canada. The Company has varying interests in petroleum and natural gas lands, pipelines, gas processing facilities, and mining properties.

Canadian Reserve is a successor to Fargo Oils Ltd. which was incorporated on November 20, 1950. Other companies were merged into Fargo Oils in 1958. Reserve Oil and Gas Company, in September 1967 purchased the 27% interest in the Company held by General American Oil Company and obtained the balance of the outstanding shares in 1968 through a share exchange. On April 18, 1969 the name was changed to Canadian Reserve Oil and Gas Ltd. On February 24, 1970 three other wholly owned Canadian subsidiaries of Reserve were amalgamated with Canadian Reserve. On February 8, 1971, 1,000,000 shares of Canadian Reserve were issued to the Canadian public.

Canadian Reserve has various interests in 11,094,495 acres of Crown land in the Frontier areas, of Northern Canada (see Map page 7) and offshore Eastern Canada. These lands have been farmed out to various companies who are responsible for satisfying the exploration commitments. Accordingly the Company concentrates its exploration and development efforts in the Plains and Foothills regions of Western Canada. The cash flow remaining after Provincial royalties and Federal income taxes is re-invested in the search for crude oil and natural gas reserves in this highly prospective area of Canada. Active prospect and producing areas are shown on the accompanying map.

Canadian Reserve Oil and Gas Ltd. is an Alberta Company headquartered in Calgary, Alberta with a district office at Lone Rock in the Heavy Crude area of Saskatchewan, located some 20 miles south of Lloydminster. The Company employs 75 people, the majority being located in the Calgary office.

## OPERATIONS

### DRILLING

Canadian Reserve participated in the drilling of 21 development wells during the year, equivalent to 9.2 net wells. Of these, 14 were completed as oil wells, 5 as natural gas wells and 2 wells abandoned for a success ratio of 90.5%.

Exploratory completions totalled 35 wells, resulting in 9 oil wells, 2 natural gas wells, and 24 dry holes for a success ratio of 31.4%. Canadian Reserve's interest in the successful exploratory completions resulted in 5.5 net oil wells and 0.6 natural gas wells.

#### Wells Drilled

|                                      | Gross Wells |           | Net Wells   |             |
|--------------------------------------|-------------|-----------|-------------|-------------|
|                                      | 1975        | 1974      | 1975        | 1974        |
| Development                          |             |           |             |             |
| Oil . . . . .                        | 14          | 13        | 6.8         | 3.3         |
| Gas . . . . .                        | 5           | 5         | 1.3         | 0.9         |
| Dry . . . . .                        | 2           | 1         | 1.1         | 0.5         |
|                                      | <u>21</u>   | <u>19</u> | <u>9.2</u>  | <u>4.7</u>  |
| Exploration                          |             |           |             |             |
| Oil . . . . .                        | 9           | 6         | 5.5         | 2.5         |
| Gas . . . . .                        | 2           | 9         | 0.6         | 3.4         |
| Dry . . . . .                        | 24          | 33        | 9.0         | 11.5        |
|                                      | <u>35</u>   | <u>48</u> | <u>15.1</u> | <u>17.4</u> |
| Total Wells . . . . .                | <u>56</u>   | <u>67</u> | <u>24.3</u> | <u>22.1</u> |
|                                      |             |           | <u>1975</u> | <u>1974</u> |
| Average Well Participation . . . . . |             |           | 43.4%       | 33.0%       |
| Success Ratio (Gross)                |             |           |             |             |
| Development . . . . .                |             |           | 90.5%       | 94.7%       |
| Exploration . . . . .                |             |           | 31.4%       | 31.3%       |

### Production and Sales

During 1975 the Company experienced a reduction in net crude oil and natural gas liquid sales. This reduction from a daily average during 1974 of 5,670 barrels to 4,856 barrels in 1975, is a direct result of increased royalties claimed by the Alberta and British Columbia governments during the year, and production problems encountered as a result of a shut down of 50% of heavy crude operations during November of 1974.

Loss of a market for heavy crude oil as a direct result of the Federal Export Tax, plus increased Saskatchewan

royalties, necessitated shutting in a total of 115 producing and 16 injection wells in the Lloydminster area. Although this market was later regained, normal producing rates were not re-established for the shut-in wells until July, 1975. The Company suffered a loss of production for an eight month period.

The introduction of a royalty surcharge in Saskatchewan and the Federal governmental taxation on provincial royalties during the latter part of 1974, compelled the Company to significantly reduce exploration and development drilling in the province in 1975. The reduction in drilling projects contributed to a reversal in the production and growth rate pattern established in years prior to 1974 and 1975.

Net natural gas sales during 1975 averaged 15.3 million cubic feet per day, a decrease from the 1974 average of 16.6 million cubic feet per day. This decrease is attributable to increased royalties in the Province of Alberta, resulting from natural gas price increases.

Substantial increases in natural gas sales are expected in 1976, primarily because of additional natural gas reserves in the Kotcho and Fireweed-Jeans areas of northeastern British Columbia. Production from the Fireweed-Jeans area was placed on stream in late 1975 and will add approximately 1 million cubic feet per day to the Company's net natural gas sales in 1976. A natural gas gathering system has been designed for the Kotcho area and construction was initiated in December, 1975. It is anticipated this system will be operating by April, 1976 with an estimated throughput of 4 million cubic feet per day of net sales gas to the Company.

Net sulphur production during 1975 averaged 109 long tons per day for a decrease of 5.2% from the 115 long tons per day in 1974. The Company sold 35,850 long tons during 1975 for an average net back price of \$20.40 per long ton, which compares with the value of \$17.24 per long ton received in the previous year.

### Natural Gas Processing

Canadian Reserve owns interests ranging from 0.67% to 33.3% in 7 natural gas processing plants in Alberta. The Company's most significant plant interests are in Crossfield, East Crossfield, Sylvan Lake and Lone Pine Creek fields of Alberta.

Canadian Reserve owns a 33.3% interest in the Lone Pine Creek processing facilities. This plant treats the sour and wet natural gas from the Devonian D-1 formation underlying Canadian Reserve acreage in the

Lone Pine Creek field. The Company's share of plant output during 1975 amounted to 1,853 million cubic feet of sales gas, 41,400 barrels of condensate and 15,825 long tons of sulphur which were committed to the block in Lone Pine Creek. During the last half of 1976, the Company plans to begin sales of sulphur production from its properties in the Lone Pine Creek area.

Canadian Reserve owns an approximate 12% interest in natural gas processing facilities in the East Crossfield area, 30 miles northeast of Calgary. The Company's net share of sales of plant products from these facilities during 1975 amounted to 1,206 million cubic feet of sales gas, 8,314 barrels of condensate and 35,659 long tons of sulphur.

Total throughput in the East Crossfield Elkton Plant will approximately double the gross 1975 rate of 7 million cubic feet of natural gas per day. This increase is a result of development drilling and approval by the Energy Resources Conservation Board to increase natural gas withdrawals from the Elkton "A" pool. Canadian Reserve's net natural gas production rate from this pool will increase from the 1975 average of 1.3 million cubic feet per day to 2.0 million cubic feet per day in 1976.

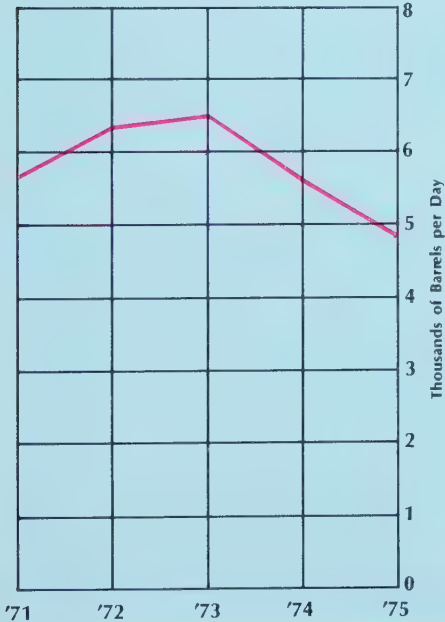
### Transportation

Canadian Reserve owns a 47.5% interest in the 101-mile Lone Rock-Kerrobert pipeline system which transports a crude oil-condensate blend from the Lloydminster area of Saskatchewan to Interprovincial Pipeline at Kerrobert, for delivery to the Ontario and Chicago marketing areas.

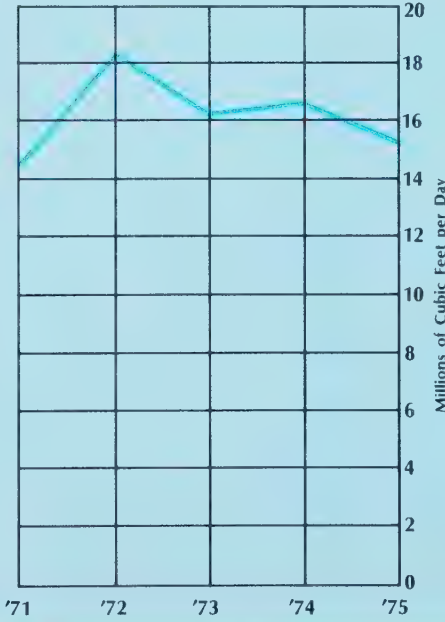
During 1975 the Lone Rock-Kerrobert pipeline delivered 2,891,000 barrels of blend to the Interprovincial line. This averaged 7,920 barrels per day, a decrease of 4.2% from the 1974 daily average of 8,268 barrels per day. This reduction was caused mainly by a decrease in exploratory and development drilling in the Heavy Crude area due to governmental policies with regard to royalties and taxation, and problems encountered as a result of a shut down of field production operations during November, 1974.

In northeastern British Columbia, Canadian Reserve owns a 21.67% interest in a 72-mile pipeline which transports crude oil from the Aitken Creek, Blueberry and Inga fields to Taylor Flats for movement via other pipelines to West Coast refineries. This system is capable of handling 15,000 barrels of crude oil per day.

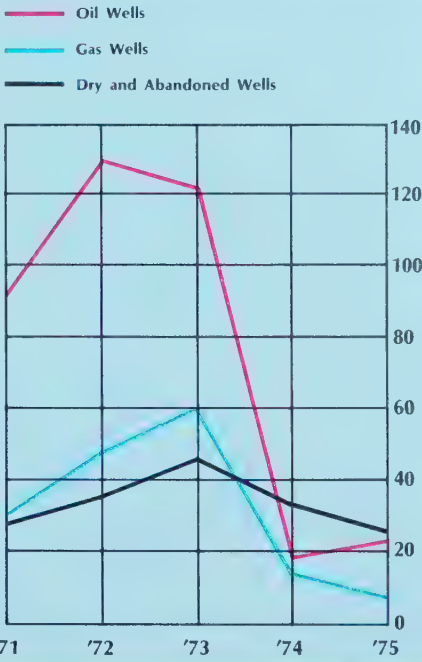
DAILY NET SALES VOLUMES  
NET OIL, CONDENSATE AND  
NATURAL GAS LIQUID SALES



DAILY NET SALES VOLUMES  
NET GAS SALES



WELLS DRILLED — GROSS



**CRUDE OIL, CONDENSATE AND NATURAL GAS SALES**  
(net after deducting royalties)

|                            | CRUDE OIL AND CONDENSATE SALES |                  |                  | NATURAL GAS SALES      |                  |                  |
|----------------------------|--------------------------------|------------------|------------------|------------------------|------------------|------------------|
|                            | 1975 %<br>Distribution         | Barrels<br>1975  | 1974             | 1975 %<br>Distribution | MCF<br>1975      | 1974             |
| <b>BRITISH COLUMBIA</b>    |                                |                  |                  |                        |                  |                  |
| Blueberry . . . . .        |                                | 41,300           | 56,400           |                        | 285,300          | 256,200          |
| Inga . . . . .             |                                | 31,000           | 54,100           |                        | 248,800          | 235,200          |
| Kotcho . . . . .           |                                | —                | —                |                        | 203,900          | 389,100          |
| Other fields . . . . .     |                                | 1,800            | 100              |                        | 105,700          | 4,900            |
|                            | <u>4.2</u>                     | <u>74,100</u>    | <u>110,600</u>   | <u>15.1</u>            | <u>843,700</u>   | <u>885,400</u>   |
| <b>ALBERTA</b>             |                                |                  |                  |                        |                  |                  |
| Bodo . . . . .             |                                | 25,300           | 15,800           |                        | 3,800            | —                |
| Cessford . . . . .         |                                | —                | —                |                        | 123,900          | 170,900          |
| Crossfield . . . . .       |                                | 42,400           | 31,900           |                        | 617,900          | 694,000          |
| Crossfield East . . . . .  |                                | 20,800           | 49,500           |                        | 1,183,200        | 1,347,700        |
| Fenn Big Valley . . . . .  |                                | 33,400           | 35,300           |                        | 900              | 19,100           |
| Lobstick . . . . .         |                                | 1,600            | 1,800            |                        | —                | —                |
| Lone Pine Creek . . . . .  |                                | 39,400           | 40,900           |                        | 1,830,300        | 1,762,600        |
| Medicine Hat . . . . .     |                                | —                | —                |                        | 47,500           | 70,100           |
| Medicine River . . . . .   |                                | 82,100           | 103,900          |                        | 706,900          | 872,900          |
| Pembina . . . . .          |                                | 111,400          | 122,900          |                        | 29,200           | 10,300           |
| Swan Hills . . . . .       |                                | 34,000           | 26,900           |                        | 23,500           | 18,900           |
| Other fields . . . . .     |                                | 33,500           | 54,400           |                        | 141,600          | 144,400          |
|                            | <u>23.9</u>                    | <u>423,900</u>   | <u>483,300</u>   | <u>84.2</u>            | <u>4,708,700</u> | <u>5,110,900</u> |
| <b>SASKATCHEWAN</b>        |                                |                  |                  |                        |                  |                  |
| Battle Creek . . . . .     |                                | 7,300            | 15,300           |                        | —                | —                |
| Cantuar . . . . .          |                                | 21,100           | 34,400           |                        | —                | —                |
| Flat Lake . . . . .        |                                | 28,300           | 28,100           |                        | —                | —                |
| Forget . . . . .           |                                | 34,000           | 34,200           |                        | —                | —                |
| Lone Rock/Epping . . . . . |                                | 1,055,400        | 1,202,500        |                        | —                | —                |
| Steelman . . . . .         |                                | 37,800           | 49,200           |                        | —                | —                |
| Other fields . . . . .     |                                | 26,400           | 43,800           |                        | 36,900           | 74,700           |
|                            | <u>68.3</u>                    | <u>1,210,300</u> | <u>1,407,500</u> | <u>.7</u>              | <u>36,900</u>    | <u>74,700</u>    |
| <b>MANITOBA</b>            |                                |                  |                  |                        |                  |                  |
| North Virden . . . . .     |                                | 55,100           | 58,700           |                        | —                | —                |
| Other fields . . . . .     |                                | 9,000            | 9,600            |                        | —                | —                |
|                            | <u>3.6</u>                     | <u>64,100</u>    | <u>68,300</u>    | <u>—</u>               | <u>—</u>         | <u>—</u>         |
|                            | <u>100.0</u>                   | <u>1,772,400</u> | <u>2,069,700</u> | <u>100.0</u>           | <u>5,589,300</u> | <u>6,071,000</u> |

## FINANCIAL REVIEW

### Gross Revenue

Gross revenue increased \$2,795,000 to \$13,556,000 for the year 1975. The increase is the result of improvement in prices of crude oil, natural gas, natural gas liquids and sulphur. The improvement was lessened by increased government royalties and surcharges.

Net crude oil sales for the year averaged 4,572 barrels per day at an average price of \$4.69 per barrel. This compares to an average daily production during 1974 of 5,332 barrels at an average price of \$3.44 per barrel. Crude oil sales provided approximately 57% of the Company's gross revenue.

Natural gas liquids received substantial price adjustments during 1975, rising from an average of \$5.35 per barrel for 1974 to \$7.09 per barrel for 1975. The Company's gross income from product sales increased from \$660,000 to \$733,000 during the year.

Gross natural gas production during the year remained essentially the same as for 1974, but increases in provincial royalties levied resulted in an 8% decrease in net natural gas sales volumes. The 1975 daily average net sales of 15.3 million cubic feet averaged 52 cents per MCF, representing a 32 cent increase over the average price for 1974.

Most of the price increase became effective during the last quarter of the year and will, therefore, have a significant effect on income for 1976. Natural gas revenue contributed 21% of gross revenue in 1975 compared with 11% in 1974.

Sulphur continued its price recovery during 1975. From an average price for 1974 of \$17.24 per long ton, it increased to an average \$20.40 per long ton for 1975. Gross income from sulphur sales increased from \$525,000 in 1974 to \$731,000 in 1975.

### Expenses

During 1975 the Company replaced its employees stock purchase plan with a bonus incentive plan. In so doing, the method of recording the cost of the benefit was changed. As a result, 1975 general and administrative expenses include two years costs for this

benefit. Without this change, general and administrative costs would have shown an increase of 14% over 1974.

### Cash Flow

Cash flow generated from operations, which consists of net income before deduction of all non-cash items, increased \$579,000 or 9% to \$7,147,000 for the year. These funds, equivalent to 74 cents per share, financed all of the Company's capital expenditures incurred during the year. Cash flow before income taxes was \$8,897,000, 92 cents per share, or 35% above the comparative total for 1974.

### Depreciation and Depletion

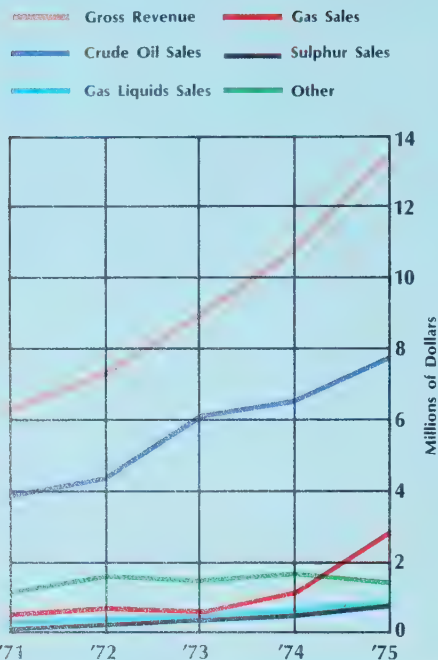
Depreciation and depletion expenses decreased \$333,000 to \$2,166,000. The write-offs for oil and gas properties and production equipment are based on the unit-of-production method. This method takes into account the Company's share of the total net volume of oil and natural gas and product sales for the year in relation to the total net reserves expressed in equivalent barrels of crude oil. Natural gas and sulphur are converted to equivalent barrels of crude oil based on the year end unit values of each. As the price of natural gas had a much greater rate of increase than the price of crude oil during 1975, the equivalent barrels of reserves of natural gas were increased substantially over those computed at the end of 1974. This calculated increase in reserves together with the decrease in net sales volumes, resulted in a smaller amount of property and equipment write-offs for 1975.

### Income Taxes

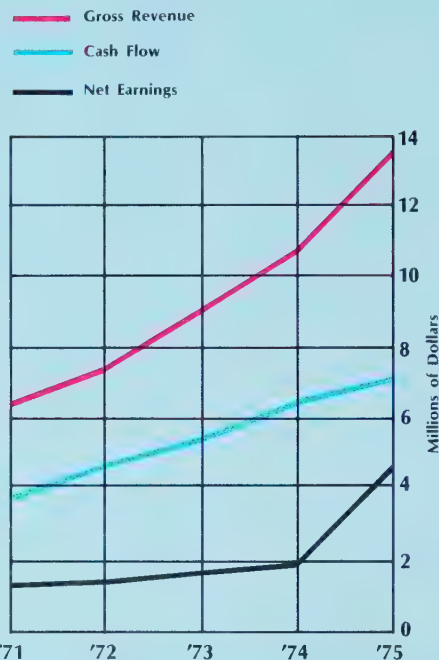
Provision for income taxes increased \$300,000 to \$2,400,000 for 1975. The 1974 provision was all deferred, whereas only \$650,000 is deferred in 1975 and the balance of \$1,750,000 is currently payable.

This increase in current taxes is due primarily to the 1974 revision of the Federal tax laws whereby all income receivable by governments from the Company properties, through royalties, royalty surcharges or similar payments, are deemed income to the Company for tax computation purposes. Such non-deductible payments to governments by the Company during 1975 amounted to approximately \$6,888,000 and the cumulative to date since May, 1974 is \$11,520,000.

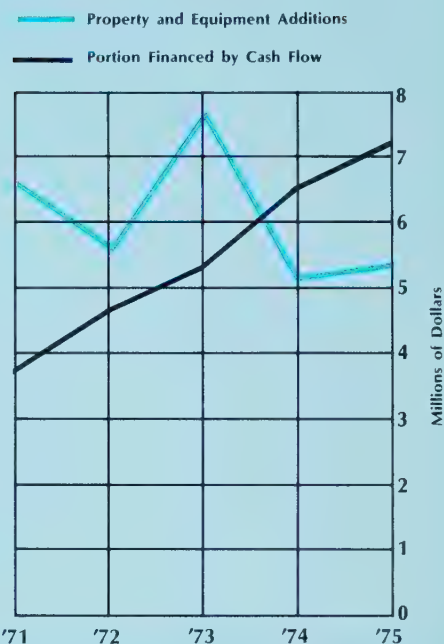
### GROSS REVENUE



### REVENUE



### PROPERTY AND EQUIPMENT ADDITIONS



### Net Income

Net income increased \$2,373,000 to \$4,319,000 for 1975. This resulted in 45 cents per share in 1975 as compared to 20 cents per share in 1974.

### Property and Equipment Additions

Property and equipment additions in 1975 amounted to \$5,276,000, up 3% from 1974. The distribution of 1975 expenditures was \$1,898,000 for the drilling of wells, \$811,000 for leasehold acquisitions, \$719,000 for well and lease equipment, \$711,000 for other facilities, \$465,000 for exploration overhead, \$337,000 for delay rentals, and \$335,000 for geological, geophysical and other. The geographical distribution of these expenditures was: Alberta 46%; British Columbia 23%; Saskatchewan 15%; Eastern Canada 13%; and other areas 3%.

### Working Capital

Working capital at year end totalled \$3,281,000 compared to \$2,983,000 a year earlier. The working capital ratio decreased from 2.4/1 to 1.7/1. This decrease was the result of the inclusion in current liabilities at December 31, 1975 of \$1,750,000 of income taxes payable.

### Production Loans

Production loans at December 31, 1975 were \$1,090,000 of which \$600,000 is payable during 1976 and thus has been included in the current liabilities. The Company retired \$1,600,000 of loans during 1975. This was \$1,000,000 more than was required and if necessary, all or a portion of this excess may be drawn down in 1976 to meet capital expenditure requirements.

### 1976 Outlook

It was stated in our 1974 report that there were indications that the year 1975 would see a return to economic realism by the Federal and Provincial governments and thus permit the industry to proceed with exploration and development programs.

Although the changes by the various governments fell short of what was considered to be necessary for a strong and healthy industry, there was nevertheless a substantial move in that direction. The Company, therefore, approached the forecasting for 1976 with a much more positive outlook than a year earlier. The major unknowns facing the Company in its forecast for 1976 are the availability of markets, particularly for heavy crude, and the uncertainty of government regulations which either have not been finalized or face revision in the coming year. If a continuation of the improving attitude of government toward industry is assumed, it is not unreasonable for the Company to expect increases in major income categories of 20 to 25% and an increase in capital expenditures of 50%.

# CANADIAN RESERVE OIL AND GAS LTD.

(Incorporated under the Laws of the Province of Alberta)

## BALANCE SHEET DECEMBER 31, 1975 and 1974

### ASSETS

#### CURRENT:

|  | 1975             | 1974             |
|--|------------------|------------------|
| Cash and term deposits . . . . .   | \$ 1,846,930     | \$ 586,500       |
| Accounts receivable . . . . .  | 4,301,522        | 2,983,552        |
| Inventory of sulphur and crude oil, at the lower<br>of cost and estimated realizable value . . . . . | 1,197,781        | 744,321          |
| Materials and supplies, at average cost . . . . .  | 824,196          | 690,827          |
| Prepaid expenses . . . . .   | 32,802           | 56,425           |
|  | <u>8,203,231</u> | <u>5,061,625</u> |

#### SUNDRY INVESTMENTS AND DEPOSITS (at the lower of cost and market) . . . . .

|               |               |
|---------------|---------------|
| 1975          | 1974          |
| <u>97,733</u> | <u>97,250</u> |

#### PROPERTY AND EQUIPMENT AT COST (Note 1):

|   |                   |                   |
|---|-------------------|-------------------|
| Oil and gas properties . . . . .                | 39,733,950        | 35,890,890        |
| Production equipment . . . . .                  | 10,845,888        | 10,124,504        |
| Plants, pipelines and other equipment . . . . . | 7,896,936         | 7,273,450         |
|   | <u>58,476,774</u> | <u>53,288,844</u> |

#### Less:

|                                    |                     |                     |
|------------------------------------|---------------------|---------------------|
| Accumulated depletion . . . . .    | 12,638,215          | 11,225,163          |
| Accumulated depreciation . . . . . | 7,113,623           | 6,409,317           |
|                                    | <u>38,724,936</u>   | <u>35,654,364</u>   |
|                                    | <u>\$47,025,900</u> | <u>\$40,813,239</u> |

### LIABILITIES

#### CURRENT:

|   |                  |                  |
|---|------------------|------------------|
| Accounts payable and accrued expenses . . . . .             | \$ 2,572,275     | \$ 1,478,948     |
| Current portion of bank production loans (Note 2) . . . . . | 600,000          | 600,000          |
| Income taxes payable . . . . .                              | 1,750,000        | —                |
|   | <u>4,922,275</u> | <u>2,078,948</u> |

|  |                |                  |
|--|----------------|------------------|
| BANK PRODUCTION LOANS (Note 2) . . . . . | <u>490,000</u> | <u>2,090,000</u> |
|--|----------------|------------------|

|  |                  |                  |
|--|------------------|------------------|
| DEFERRED INCOME TAXES (Note 1) . . . . . | <u>9,420,000</u> | <u>8,770,000</u> |
|--|------------------|------------------|

#### SHAREHOLDERS' EQUITY:

##### Share capital (Note 3) —



##### Authorized:

20,000,000 common shares having a nominal or  
par value of \$1.00 each

##### Issued:

|                               |                     |                     |
|-------------------------------|---------------------|---------------------|
| 9,635,037 shares . . . . .    | 9,635,037           | 9,635,037           |
| Contributed surplus . . . . . | 5,888,725           | 5,888,725           |
| Retained earnings . . . . .   | 16,669,863          | 12,350,529          |
|                               | <u>32,193,625</u>   | <u>27,874,291</u>   |
|                               | <u>\$47,025,900</u> | <u>\$40,813,239</u> |

On behalf of the Board:

 Director.  
 Director.

See accompanying notes.

# CANADIAN RESERVE OIL AND GAS LTD.

## Statement of Income

Years Ended December 31, 1975 and 1974

|   | <u>1975</u>         | <u>1974</u>         |
|---|---------------------|---------------------|
| Revenue:                                |                     |                     |
| Gross operating revenue . . . . .       | \$13,393,756        | \$10,601,986        |
| Other . . . . .                         | <u>162,602</u>      | <u>158,959</u>      |
|   | <u>13,556,358</u>   | <u>10,760,945</u>   |
| Expenses:                               |                     |                     |
| Operating . . . . .                     | 3,194,776           | 2,957,068           |
| General and administrative . . . . .    | 1,131,727           | 911,859             |
| Depreciation . . . . .                  | 752,649             | 803,111             |
| Depletion . . . . .                     | 1,413,052           | 1,695,446           |
| Interest on long term debt . . . . .    | 199,717             | 320,580             |
| Other . . . . .                         | <u>145,103</u>      | <u>26,538</u>       |
|   | <u>6,837,024</u>    | <u>6,714,602</u>    |
| Income before income taxes . . . . .    | 6,719,334           | 4,046,343           |
| Provision for income taxes (Note 1):    |                     |                     |
| Current . . . . .                       | 1,750,000           | —                   |
| Deferred . . . . .                      | <u>650,000</u>      | <u>2,100,000</u>    |
|   | <u>2,400,000</u>    | <u>2,100,000</u>    |
| Net income for the year . . . . .       | <u>\$ 4,319,334</u> | <u>\$ 1,946,343</u> |
| Net income per share (Note 5) . . . . . | <u>\$ 0.45</u>      | <u>\$ 0.20</u>      |

## Statement of Retained Earnings

Years Ended December 31, 1975 and 1974

|                                      | <u>1975</u>         | <u>1974</u>         |
|--------------------------------------|---------------------|---------------------|
| Balance, beginning of year . . . . . | \$12,350,529        | \$10,404,186        |
| Net income for the year . . . . .    | 4,319,334           | 1,946,343           |
| Balance, end of year . . . . .       | <u>\$16,669,863</u> | <u>\$12,350,529</u> |

See accompanying notes.

# CANADIAN RESERVE OIL AND GAS LTD.

## Statement of Changes in Financial Position

Years Ended December 31, 1975 and 1974

|   | <u>1975</u>        | <u>1974</u>        |
|---|--------------------|--------------------|
| Source of funds:  |                    |                    |
| Net income for the year . . . . .   | \$4,319,334        | \$1,946,343        |
| Depletion, depreciation, deferred income<br>taxes and other non-cash items, net . . . . . | <u>2,827,393</u>   | <u>4,621,226</u>   |
| Cash flow from operations . . . . .   | <u>7,146,727</u>   | <u>6,567,569</u>   |
| Increase in long term portion of bank production loans . . . . .                          | —                  | 500,000            |
| Proceeds from sale of property and equipment . . . . .                                    | 27,760             | 102,018            |
| Proceeds from sale of investments . . . . .   | —                  | 9,480              |
| Issue of share capital for cash . . . . .   | —                  | 21,640             |
|   | <u>7,174,487</u>   | <u>7,200,707</u>   |
| Application of funds:   |                    |                    |
| Additions to property and equipment . . . . .   | 5,275,725          | 5,097,399          |
| Acquisition of investments . . . . .  | 483                | 28,219             |
| Repayment of bank production loans . . . . .  | <u>1,600,000</u>   | <u>500,000</u>     |
|   | <u>6,876,208</u>   | <u>5,625,618</u>   |
| Increase in working capital . . . . .   | 298,279            | 1,575,089          |
| Working capital, beginning of year . . . . .  | <u>2,982,677</u>   | <u>1,407,588</u>   |
| Working capital, end of year . . . . .  | <u>\$3,280,956</u> | <u>\$2,982,677</u> |

## Statement of Contributed Surplus

Years Ended December 31, 1975 and 1974

|   | <u>1975</u>         | <u>1974</u>         |
|---|---------------------|---------------------|
| Balance, beginning of year . . . . .  | \$ 5,888,725        | \$ 5,812,985        |
| Consideration over par value for shares issued<br>during the year . . . . . | —                   | 75,740              |
| Balance, end of year . . . . .  | <u>\$ 5,888,725</u> | <u>\$ 5,888,725</u> |

See accompanying notes.

# CANADIAN RESERVE OIL AND GAS LTD.

## Notes to Financial Statements

December 31, 1975

### 1. Summary of significant accounting policies

#### *Property and equipment*

The Company follows the full-cost method of accounting wherein all costs related to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted by relating the total production for the year to the total estimated proven reserves. Depreciation of production equipment is provided on the same basis as depletion, and plants, pipelines and the majority of other equipment are depreciated on the straight line method at rates varying from 5% to 10%.

#### *Income taxes*

The Company accounts for income taxes by the tax allocation method, whereby the income tax provision is based on earnings reported in the accounts.

### 2. Bank production loans

Bank production loans are secured by certain producing properties and repayments in the amount of approximately \$600,000 are required annually.

### 3. Share capital

#### *Stock option plan*

During the year, options to purchase 23,000 shares were granted and options to purchase 13,900 shares were cancelled. No options were exercised during the year. At December 31, 1975 options granted to officers and employees to purchase 169,500 shares were outstanding. These options are exercisable at various dates to April 1985 at prices of \$2.03 and \$3.20 per share. In addition, the Company has reserved 25,600 shares for the granting of future options to officers and employees.

### 4. Statutory information

Directors and senior officers (including the five highest paid employees) received remuneration and benefits amounting to \$284,124 during 1975.

### 5. Net income per share

Net income per share is based on the average number of shares outstanding during the year. The exercise of the outstanding share options would have no dilutive effect.

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## AUDITORS' REPORT

To the Shareholders of  
Canadian Reserve Oil and Gas Ltd.

We have examined the balance sheet of Canadian Reserve Oil and Gas Ltd. as at December 31, 1975 and the statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.  
February 5, 1976.

*Arthur Young, Clarkson, Gordon & Lee*

Chartered Accountants.

## FIVE YEAR SUMMARY

|                                    | <u>1975</u>  | <u>1974</u>  | <u>1973</u> | <u>1972</u> | <u>1971</u> |
|------------------------------------|--------------|--------------|-------------|-------------|-------------|
| <b>FINANCIAL</b>                   |              |              |             |             |             |
| Gross Revenue . . . . .            | \$13,556,358 | \$10,760,945 | \$8,999,791 | \$7,360,246 | \$6,347,451 |
| Cash Flow . . . . .                | 7,146,727    | 6,567,569    | 5,373,653   | 4,685,420   | 3,759,544   |
| Depreciation and Depletion . .     | 2,165,701    | 2,498,557    | 2,618,174   | 2,153,317   | 1,666,549   |
| Deferred Taxes . . . . .           | 650,000      | 2,100,000    | 1,060,000*  | 952,000*    | 839,000*    |
| Extraordinary Items . . . . .      | —            | —            | —           | —           | (51,910)    |
| Net Income . . . . .               | 4,319,334    | 1,946,343    | 1,629,780*  | 1,381,049*  | 1,305,905*  |
| Per Share                          |              |              |             |             |             |
| Gross Revenue . . . . .            | 1.41         | 1.12         | .94         | .77         | .67         |
| Cash Flow . . . . .                | .74          | .68          | .56         | .49         | .40         |
| Income before                      |              |              |             |             |             |
| Extraordinary Items . . . .        | .45          | .20          | .17*        | .14*        | .13*        |
| Net Income . . . . .               | .45          | .20          | .17*        | .14*        | .14*        |
| Property and                       |              |              |             |             |             |
| Equipment Additions . . . . .      | 5,275,725    | 5,097,399    | 7,693,790   | 5,661,141   | 6,608,426   |
| Working Capital . . . . .          | 3,280,956    | 2,982,677    | 1,407,588   | 2,534,424   | 2,038,631   |
| Outstanding Shares . . . . .       | 9,635,037    | 9,635,037    | 9,613,397   | 9,526,282   | 9,516,226   |
| <b>OPERATING</b>                   |              |              |             |             |             |
| Oil and Gas Liquid Sales — Barrels | 1,772,468    | 2,069,679    | 2,383,771   | 2,333,792   | 2,108,450   |
| — Barrels per day . . . . .        | 4,856        | 5,670        | 6,531       | 6,377       | 5,777       |
| Gas Sales — Mcf . . . . .          | 5,589,294    | 6,070,998    | 5,937,703   | 6,691,018   | 5,330,410   |
| — Mcf per day . . . . .            | 15,313       | 16,633       | 16,268      | 18,282      | 14,604      |
| Sulphur Sales — Long Tons . . .    | 35,850       | 30,460       | 39,645      | 47,330      | 27,965      |
| — Long Tons per day . . . . .      | 98           | 83           | 109         | 129         | 77          |
| Wells Drilled — Gross (net)        |              |              |             |             |             |
| Oil . . . . .                      | 23(12)       | 19( 6)       | 62(19)      | 83(29)      | 62(15)      |
| Gas . . . . .                      | 7(2)         | 14( 4)       | 17( 6)      | 10( 2)      | 3( 1)       |
| Dry . . . . .                      | 26(10)       | 34(12)       | 43(18)      | 37(12)      | 28(13)      |
| Total . . . . .                    | 56(24)       | 67(22)       | 122(43)     | 130(43)     | 93(29)      |

\* Restated for change in deferred tax accounting policy.

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